REGULAR MEETING OF THE BOARD OF ADMINISTRATION

RETIREMENT BOARD

WATER AND POWER EMPLOYEES' RETIREMENT PLAN

MINUTES – June 7, 2006

Present:

Javier Romero	President
Eugene Canzano	Board Member
Cindy Coffin	Board Member
Forescee Hogan-Rowles	Commissioner
Michael Moore	Retiree Member

Absent:

Ronald Deaton	General Manager
Ron Vazquez	Chief Financial Officer

Others Present:

Sangeeta Bhatia	Retirement Plan Manager
Vikki Burks	Recording Secretary
Tom Harrington	Consultant
June Kim	Investment Officer
Mike Wilkinson	Deputy City Attorney
Paul Angelo	The Segal Company
Alex Leonard	Mellon Bank
Neil Rue	Pension Consulting Alliance (PCA)

President Romero called the meeting to order at 9:40 a.m. after the Pledge of Allegiance.

[Pledge of Allegiance]

Ms. Bhatia indicated a quorum of the Board was present.

President Romero welcomed Ms. Cindy Coffin.

PUBLIC COMMENTS

President Romero asked if there were any public comments.

Mr. Raul Banuelos (DWP employee) approached the podium.

President Romero recognized Mr. Raul Banuelos.

Mr. Banuelos stated he has been a DWP employee for approximately 17 years. He addressed the Board because he feels that the current retirement formula excludes certain employees. According to Mr. Banuelos employees who do not have thirty years of service at age fifty-five are excluded from the enhancement to the retirement formula. He also stated employees who retire prior to fifty-five are penalized for age because in order to receive the maximum benefit from the current formula an employee must be at least sixty-years old at the time of retirement. Mr. Banuelos mentioned employees hired prior to January 1, 1984 contribute 2.5% (or less) while those hired January 1, 1984 or later contribute 6% of their salary. He stated any employee who has been with the Department for twelve years and hired after January 1, 1984 has contributed the same amount as an employee who has been with the Department for thirty years but was hired before January 1, 1984. Based on his calculations, Mr. Banuelos provided the following example: Two associate engineers are ready to retire on June 1, 2006. Both engineers are fifty-five years old. One engineer was hired before January 1, 1984, has worked for the Department for thirty years, and has contributed $124,000 to the Plan. The other engineer was hired after January 1, 1984, has worked for the Department for twenty years, and has contributed $170,000 to the Plan. The first engineer would receive 69% of his salary and the second engineer would receive only 38%. He stated the engineer who started after January 1,1984 although having contributed almost 50% more to the Plan receives nearly 50% less than the engineer who started before January 1, 1984. Mr. Banuelos believes this is a huge inequity and should be addressed by the Board. According to Mr. Banuelos many employees are concerned with this. He requested feedback from the Board in the next month or so.

President Romero introduced items 1 and 2 for consent approval as follows:

1. Approval of, Board Minutes

a) March 15, 2006 (Regular Board Meeting) **1a.1 – 1b.8**

b) April 5, 2006 (Regular Board Meeting) **1b.1 – 1b.8**

2. Termination from Monthly Rolls as of May 2006: **2.1 – 2.2**

06-62 **Retirement Resolution for May 2006**

06-63 **Resolution terminating Gary D. Bishop from the May 2006**

Permanent Disability Roll (deceased)

Mr. Moore citing page 1a.1 of the Board package where it reads “Mr. Canzano referred to page 6, item 5 regarding the Retirement Board election…” stated he does not doubt Mr. Canzano made the statement, but because the comment is regarding election rules he questions if it belongs under Consent Item 2, “Termination from Monthly Rolls as of March 2006”.

Mr. Moore, referred to the section of page 1a.2 that reads, “Mr. Moore moved adoption of the above items 1 and 2 on consent. The motion was not seconded by a Board member and therefore the vote was not carried.” He noted he does not remember that happening. Ms. Bhatia explained items 1 and 2 were not seconded during the meeting and a Special Board meeting was held on 5/3/06 to obtain approval. Ms. Bhatia also mentioned it would have to be verified if Mr. Canzano’s statement is in the correct place.

Mr. Canzano moved adoption of the above items 1 and 2 on consent. Seconded by Commissioner Hogan-Rowles and carried unanimously after the following vote:

Ayes: Romero, Canzano, Coffin, Moore, Hogan-Rowles

Nays: None

3.	**Report of Payment Authorizations as of April 2006**	**3.1 – 3.79**
4.	**Notice of Deaths for April 2006**	**4.1 – 4.2**
5.	**Report on Status of Insurance as of April 30, 2006**	**5.1**
6.	**Summary Investment Returns as of April 30, 2006**	
	a) Market Value of Investment by Fund and Month as of April 30, 2006	**6a.1 – 6a.2**
	b) Market Value of the Retirement, Death & Disability Funds as of April 30, 2006	**6b.1 – 6b.3**
	c) Investment Returns as of April 30, 2006	**6c.1 – 6c.2**
7.	**Retirement Board Election Results**	**7.1**
8.	**Management Audit - request from City Controller's Office**	**8.1 – 8.5**
9.	**Retirement Seminar Tape**	**9.1**

Commissioner Hogan-Rowles moved the above items 3 through 9 be received and filed. Seconded by Mr. Canzano and carried unanimously after the following vote:

Ayes: Romero, Canzano, Coffin, Moore, Hogan-Rowles

Nays: None

10. Investment Manager presentations – Large Cap Value

a) MFS **10a.1 – 10a.4**

b) T.Rowe Price **10b.1 – 10b.3**

a) MFS

Ms. Kate McCloskey Mead, Institutional Portfolio Manager and Ms. Caroline Lucy, Vice President of Relationship Management Group, from MFS approached the table. President Romero recognized the representatives of MFS.

The MFS representatives provided the Board with a presentation of their Large Cap Value.

President Romero inquired what was the MFS definition of a market cycle. Ms. McCloskey responded timeframe depends on what is happening in the general market. The way MFS looks at full market cycle for the Plan's portfolio is based on the appetite for risk in the market. Ms. McCloskey noted a good way to look at it is to compare high yield spreads to treasuries. She stated the higher the spread the more risk aversion and the lower the spread the more appetite you have for risk. Ms. McCloskey noted since the year 2002 the appetite for risk has increased dramatically and spreads have compressed. She stated the market is at historic lows however MFS has noticed within the past couple of months spreads have begun to spread out slightly. Ms. McCloskey stated the cycle might last up to eight years.

Commissioner Hogan-Rowles inquired what is the change in market value dedicated to and how does it relate to the performance model that is listed on page 5. Ms. McCloskey responded the change in market value is the appreciation the Plan's portfolio has experienced based on the investment decisions MFS has made since the contract began. She stated the performance model is from the last one-year period. Ms. McCloskey noted the Plan's gross performance is 12.7% and the Russell 1000 value is 12.6%.

Commissioner Hogan-Rowles stated the Board has received a memo from Mayor Villaraigosa regarding investments with companies having business operations in Sudan. She inquired if MFS has addressed this issue. President Romero stated the topic is a separate agenda item and will be discussed later during the meeting. Ms. McCloskey stated MFS only invests in United States based companies.

Commissioner Hogan-Rowles inquired about the performance of Hewlett-Packard. Ms. McCloskey responded the Hewlett-Packard stocks were sold off because of skepticism in the company being able to meet the margin targets set by the new CEO. Ms. McCloskey stated Hewlett-Packard executed better than MFS anticipated and it would have been nice to own the stock. She stated alternatives have been found which have more valuation case.

Commissioner Hogan-Rowles requested Ms. McCloskey address the leisure sector. Ms. McCloskey responded MFS has been pulling money out of the leisure sector. She noted McDonalds was sold off because the valuation was not accounting for the additional execution risks. Ms. McCloskey stated MFS has been moving money out of the cable industry due to concerns with the incremental competition and valuations.

Ms. McCloskey stated the Industrial Goods & Services sector was the best performing sector in the portfolio. Commissioner Hogan-Rowles stated she believes the sector is performing so well in part from the business generated from the war in Iraq. She inquired was MFS monitoring this to know when to pull out. Ms. McCloskey agreed some of the increase in spending in the sector is related to the war in Iraq, however most of the incremental growth is not related to the war in Iraq. She mentioned continued defense spending and defense companies expanding their addressable market will continue to help the companies in this sector. She added the valuation is still attractive.

Commissioner Hogan-Rowles inquired if the Plan has to invest in tobacco because it is unhealthy. Ms. McCloskey responded investing in tobacco has been financially beneficial to the Plan. Commissioner Hogan-Rowles inquired if the Plan could invest in an industry just as financially beneficial as tobacco but without the health risks. Ms. McCloskey responded there are other higher yielding names but tobacco has been an attractive investment. Ms. Lucey mentioned MFS manages portfolio's that have tobacco restrictions. She stated in the near future it may affect the Plan but over the long run portfolios can be managed around tobacco sales.

Commissioner Hogan-Rowles inquired has the Board ever taken a position on the tobacco issue. Mr. Rue noted there is no stipulation about a tobacco restriction in the Plan's contract. Commissioner Hogan-Rowles inquired if the Plan could look into a restriction on investing in tobacco. She stated for personal reasons, related to her father's battle with esophagus cancer, she does not like the idea of the Plan investing in tobacco. Ms. Bhatia responded the guidelines would need to be reviewed because all of the managers are required to adhere to the guidelines. Commissioner Hogan-Rowles inquired if the Board can come up with a policy to not invest in tobacco related products. Ms. Bhatia stated Staff would work with PCA and bring back something for the Board to review.

Ms. Mead and Ms. Lucey returned to the audience.

b) T. Rowe Price

Mr. Timothy D. Noel, Portfolio Specialist and John D. Plowright, Vice-President of Institutional Client Service Executive from T. Rowe Price approached the table. President Romero recognized the representatives of T. Rowe Price.

The T. Rowe Price representatives provided the Board with a presentation of their Large Cap Value.

Mr. Plowright stated at the end of the year T. Rowe Price chairman, George Roche will retire. Mr. Plowright noted Mr. Jim Kennedy and Mr. Brian Rogers have already been acknowledged to replace him. He stated Mr. Kennedy will focus on the day-to-day management of the company and Mr. Rogers will be chairman of the board.

President Romero inquired if PCA was aware of this change. Mr. Plowright responded both PCA and staff have been notified of the change. He stated Mr. Kennedy and Mr. Rogers have over twenty years of experience with T. Rowe Price.

Commissioner Hogan-Rowles inquired how long the portfolio has held an interest in Comcast. Mr. Noel explained both Comcast and New York Times have been owned in the Plan's portfolio since 2004. He also explained the New York Times has been one of the main reasons for the poor performance. Commissioner Hogan-Rowles inquired why did T. Rowe Price continue holding the New York Times stock. Mr. Noel responded T. Rowe Price believes the New York Times stock is under valued. He noted several reasons including: The fact that T. Rowe Price believes that the New York Times can improve its business, they have partial ownership in the Boston Red Sox, the ownership of their Boston papers, and the value of their office towers in New York City.

Commissioner Hogan-Rowles as a follow-up to Mr. Noel's comment of T. Rowe Price being "long-term investors", inquired how many more years do they plan on staying with companies that are not performing well. Mr. Noel responded as value investors they have prices in mind as opposed to a specific time frame for the stocks. Mr. Plowright added while there are exceptions, the average time T. Rowe Price holds onto a stock is between three to five years.

Mr. Moore requested the T. Rowe Price representatives comment on the graph on page 23 of their presentation booklet. Mr. Noel responded the graph represents how the portfolio has performed over a rolling three-year period. He mentioned in markets that are strongly upward over longer time periods, T. Rowe Price tends to lag because they are not consistent with the valuation work they do. Mr. Noel also noted if the market continues to run very hard, T. Rowe Price probably would lag. In normal to negative markets, the work that T. Rowe Price does, in trying to assess the risk and reward potential for each stock tends to provide downside protection when markets go negative.

Mr. Noel, Mr. Plowright, Ms. Mead and Ms. Lucey left the Boardroom.

11. Responses to additional questions and status of compliance with insurance provisions from finalists for the Integrated Pension System RFI and possible selection of vendor (deferred from May 3, 2006) **11.1 – 11.50**

Mr. Tom Harrington and Mr. Avery Neaman approached the Board Table. President Romero recognized Mr. Harrington and Mr. Neaman.

Mr. Harrington stated he feels both LRS and JEA will be able to do an adequate job on the computerization project. He stated the Board might want to speak with an IT person directly regarding both firms ability to complete the assignment. Mr. Harrington noted JEA was totally compliant with the insurance provisions while LRS originally set up a fee-split proposal in order to acquire the additional insurance. Mr. Harrington stated while LRS labeled this as a fee-split, it was actually an increase in their fee.

Mr. Harrington requested Mr. Neaman expound on the memo he wrote to the Board regarding the insurance issue. Mr. Neaman noted both firms are now on an equal playing field in terms of the insurance requirement. He noted LRS increased their cost by about $33,000. Mr. Neaman stated there are no longer any issues regarding proof of insurance and once a decision is made there should be no delays due to insurance issues. Mr. Harrington mentioned in items 11 and 12 of Mr. Neaman's memo it is important to note the fees are only for a limited time. He stated the Crime/Fidelity cost is an additional $5,002 and the Professional liability is an additional $7141 for four years. Mr. Neaman noted better pricing of the proposed fee split was negotiated. LRS lowered the actual cost of the insurance and agreed to LRS, paying 75% of the cost and the Department 25%, as opposed to the original 50/50 split LRS had proposed.

Ms. Bhatia stated she believes both LRS and JEA are able complete the project. She noted IT has reviewed the responses of the additional questions the Board requested that the finalists answer. Ms. Bhatia stated Staff has not made a recommendation on which firm to select. She stated the only pending item at the last meeting was the ability of the firms to comply with the insurance requirements. Ms. Bhatia stated the issue has been resolved and the only step remaining is for the Board to make a selection so the computer project can begin.

Mr. Canzano commended Mr. Neaman for doing an excellent job in preparing the memo. He stated the issue is a very complex one, but thanks to the clarity of Mr. Neaman's memo, he feels very confident in making a decision.

President Romero stated Mr. Neaman has done an excellent job on all of the issues he has presented before the Board. He stated at this point he feels partial to LRS because they scored higher; the amount and type of clientele they have served; the City of Los Angeles having the same software so in the event of a disaster, staff other than WPERP staff, would be familiar with the software.

Mr. Canzano agreed with President Romero and stated although both companies are capable of performing the duties, he was more impressed with LRS. He also mentioned the fact the Pension Gold product came so highly recommended from LACERS is reassuring to him. Mr. Moore stated he also was more impressed with LRS. He noted LRS's estimated implementation time was substantially less than JEA's. Mr. Moore stated LRS already has several important California clients. He mentioned JEA has no American clients at all and in the future may decide the United States is not a market it wants to service. Mr. Moore requested Staff provide the Board with its recommendation of the firm to choose and address how firm LRS's ten months' implementation time is.

Ms. Bhatia responded LRS is recommended based on: the criteria used to evaluate the responses, ability to meet technical requirements, experience with LACERS (the Plan has reciprocity with LACERS and most of the Plans provisions are very similar to LACERS), reasonableness of estimated time, willingness to hold cost regardless of time overruns, positive feedback from client satisfaction surveys, and local experience, specifically in California. Mr. Harrington agreed with Ms. Bhatia, stating there are different types of risks to consider in addition to insurance risks. He noted LRS is a large company with a lot of experience and JEA is smaller without much experience in the United States. Mr. Harrington stated intuitively it seems there is less risk associated with the bigger, more experienced company. He mentioned the ten-month implementation schedule is ambitious, however because LRS implemented LACERS' system, it is credible because there are only a small amount of modifications from the LACERS system to the Plan's. Mr. Harrington noted the issue of time overruns, were addressed in the client satisfaction surveys. He was informed any time overruns were at least partially due to the client requesting additional services during implementation. Mr. Harrington stated the cost is fixed and it is to LRS's advantage to complete the project on time. He mentioned if no additional services are requested and no unforeseen problems occur then LRS should hold close to the ten-months implementation time.

Mr. Canzano inquired if Staff is able to provide the level of support LRS needs adding the Board is working on keeping the IT positions within the Retirement Plan office. Ms. Bhatia responded the IT positions are still in the Plan's budget and providing the appropriate level of support should not be an issue. Mr. Moore stated the IT support issue is an important one. He mentioned in the memo IT provided it is noted they can dedicate only a certain number of hours per week to the project. Ms. Bhatia clarified the memo indicates IT could dedicate only ten hours per week to the project. Mr. Moore stated the ten hours is insufficient and needs to be addressed. He stated the appropriate IT support is needed so the computer project is not slowed down. Mr. Harrington responded that is why the Plan's IT positions should be filled. He also noted the Plan's IT people on staff can dedicate 100% of their time to the project. Mr. Moore responded the new people may not have the necessary knowledge for the system to be implemented quickly, and IT people may still be needed. He stated someone should coordinate with IT to make sure the necessary resources are available. Ms. Bhatia stated Staff will coordinate properly with IT.

Mr. Moore stated in order to avoid unnecessary time over-runs Staff needs to specify exactly what services are wanted upfront. Mr. Neaman responded if time over-runs caused by the company are a concern, he can work with Attorney Wilkinson to include liquidated damages in the contract. He noted liquidated damages are an incentive for the company to complete the project on time. Mr. Harrington responded if the company runs over, they are incurring damages because the fee proposal is fixed and they receive the same amount of money as if the project was completed on time. Mr. Neaman stated liquidated damages are a common risk management tool. He explained the amount of money to be charged for a specific number of days past the deadline is agreed upon in advance, so there is no dispute at the time the company is asked to pay the liquidated damages. Ms. Bhatia explained Staff is aware this project will take coordination with IT. She stated Staff will ensure they have the dedicated resources and all steps are looked at in advance so there will be no time over-runs due to lack of planning.

Commissioner Hogan-Rowles suggested Staff have a time-line and meet regularly with the company to receive project updates. Mr. Harrington stated the contract could include deliverables where the company will not receive payment until a certain step is completed. Mr. Moore inquired if the contract will include "withholds" where a portion of the fee is not paid until the project is accepted by Staff. Ms. Bhatia responded the contract has not been developed, however withholds can be looked into as a payment plan based on project completion. Attorney Wilkinson mentioned deliverables have been used in other contracts, such as an information technology project for the Police and Fire Pensions Department. Ms. Bhatia added LACERS also included this in their contract.

Mr. Moore requested Staff provide the Board with periodic updates on the project. Ms. Bhatia responded in the affirmative. Commissioner Hogan-Rowles suggested the Board receive updates quarterly or every other month. Ms. Bhatia agreed to quarterly updates.

Mr. Moore moved to select LRS as vendor for the Integrated Pension System for the Retirement Office. Seconded by Mr. Canzano and carried unanimously after the following vote:

Ayes: Canzano, Coffin, Hogan-Rowles, Moore and Romero
Nays: None

12. Proxy Services Request for Information (RFI) Update – Memo from PCA **12.1 – 12.6**

Mr. Neil Rue of PCA approached the table. President Romero recognized Mr. Rue. President Romero requested Mr. Rue summarize the memo from PCA, stating he received his board package late, and did not have time to review the entire packet. Mr. Rue explained the memo is a continuation of the RFI process for Proxy Services. He stated, at the direction of the Board, PCA sent out an RFI to six potential proxy service vendors and received responses from three. Mr. Rue listed the respondents as: Institutional Shareholder Service (ISS), Glass Lewis and Marco Consulting Group (MCG). He stated PCA feels these three companies provide the Board with a reasonable sample from which to select a proxy services firm. He explained PCA recommends the Board invite ISS and Glass Lewis for interviews as potential finalist candidates for proxy services providers.

Mr. Canzano stated he supports PCA's recommendation of bringing in ISS and Glass Lewis, as their rankings were very close. He noted MCG was ranked much lower than the other respondents. Mr. Moore stated he is also comfortable with PCA's recommendation of finalists.

Mr. Moore referring to page 12.3 of the Board package inquired what types of services are provided to corporate issuers who are serviced by proxy service providers. Mr. Rue responded he would need to discuss the issue off-line with Mr. Moore, but believes the service ISS offers to corporations is guidance in terms of shareholder issues.

Mr. Moore noted that according to PCA's Proxy Services RFI scoring sheet, ISS receives only 10% of revenues from public defined benefit plans. He inquired where the rest of ISS' revenue comes from. Mr. Rue responded the remainder of ISS' revenue comes from corporate pension plans and business with corporate issuers. Mr. Moore inquired if ISS receiving so much of its business from corporations is considered a potential conflict. Mr. Rue responded in the affirmative, adding it is a factor the Board should carefully review and discuss with ISS. Mr. Rue stated ISS and Glass Lewis both represent CalPers pension plan. Mr. Moore stated Glass Lewis does not have the same type of potential conflicts as ISS. Mr. Rue stated based on the information they provided in the RFI, Glass Lewis does not have the same type of potential conflicts.

Mr. Canzano moved to proceed with the finalist interviews of Glass Lewis and ISS for the proxy services assignment. Seconded by Mr. Moore and passed unanimously after the following vote:

Ayes: Canzano, Coffin, Hogan-Rowles, Moore and Romero
Nays: None

06-64 13. Discussion and possible action to approve a proposed amendment to the Water and Power Employees' Retirement Plan (Plan) to establish a Retiree Health Benefit Fund as part of the Plan 13.1 – 13.20

Mr. Paul Angelo of the Segal Company, Mr. Alex Leonard of Mellon Bank, Ms. June Kim, Retirement Plan Office Investment Officer, and Mr. David Ulm, Executive Assistant to the General Manager, all approached the Board table. President Romero recognized Mr. Angelo, Mr. Leonard, Ms. Kim and Mr. Ulm.

Attorney Wilkinson requested Ms. Vikki Burks, Recording Secretary, telephone Attorney Richard Gilbert, outside tax counsel, for inclusion in this portion of the meeting to address any tax questions. Ms. Burks telephoned Attorney Gilbert, however, his answering machine picked up.

President Romero recalled at the May 24, 2006 Regular Board meeting Attorney Wilkinson stated this issue "may or may not" be considered a meet-and-confer item. Attorney Wilkinson referenced a memo from Mr. Deaton included in the Board package addressed to the unions. He added he deferred to Mr. Cecil Marr, the labor lawyer currently advising the General Manager.

President Romero stated Attorney Wilkinson's response did not answer the question of whether or not this is a meet-and-confer issue. Mr. Ulm responded Attorney Cecil Marr determined this is not a meet-and-confer issue and stated the appropriate thing was to notify the unions.

Mr. Canzano noted, according to Mr. Deaton's memo, the transfer of funds has already taken place and inquired if the Board had accepted this change. Ms. Bhatia responded in the negative. Mr. Canzano requested clarification of the statements made in the first paragraph of the memo. Mr. Ulm explained, in order to have the transfer implemented by the target date of June 30, 2006, the Department has already started the process. He stated, if the Retirement Board and the Board of Commissioners do not approve the change, then the process will stop. Mr. Ulm noted if the Retirement Plan Board approves the change during the current meeting, only then would the issue be presented to the Board of Commissioners on June 20, 2006.

President Romero requested Mr. Ulm provide background information on this matter. President Romero inquired how the change affects the Plan's liability. Mr. Ulm stated the Department has had a trust fund for post-retirement benefits since 1982, the idea being the Department wanted to follow the FASB guidelines. This meant we needed to determine what our liabilities were for these post retirement benefits and then start putting in money to get up to the full retirement value. He continued, in the early 90's, the trust fund the Department currently has was formed in 1995, and there is over $400 million in the trust fund towards the actuarial liability. Mr. Ulm emphasized that it was not until the end of December, beginning of January, that the Department received the final opinion of the outside external auditors, KPMG. In accordance with the new GASB requirements, the Department has been moving to go under the governmental standards rather than the FASB standards, which is more for utility companies. He added, KMPG determined that under GASB 45, which is similar to the financial standard the Department was following before, having the trust fund run by the Department and on the Department's books should not be and could not be counted towards the liability. Mr. Ulm reported the Department wanted to determine what they would have to do if the $400 million would not count towards the liability. After talking to several different experts, it was determined that this must be a separate fiduciary fund not run and invested by the Department of Water and Power. Mr. Ulm stated that this was a learning experience for the Department because it was always assumed the $400 million could only be spent on retirement health benefit. He added it was even determined that the Board of Commissioners could eliminate the trust fund and it was not safe from creditors. Mr. Ulm reported in order for our retirees to feel safe about their money, the Department really needed to correct these issues. He noted there were two alternatives: 1) put it into the Retirement Plan since healthcare is a retirement benefit and 2) set up a fiduciary trust with a third party keeping in mind that these trusts are new. Mr. Ulm stated this was a new issue for city governments. Prior to GASB 45, most city governments did not put any money towards their health care retiree benefit so they carried a huge liability. He reported the Department determined they have to set this up as a fiduciary trust fund. In response, a new market has come up where companies will set up these trust funds, but Mr. Ulm feels that this does not have the same safe feeling for the employees and retirees as it would as a part of the Retirement Plan. Mr. Ulm stated the Department wants to move on this so it will be effective at the beginning of the fiscal year, July 1st. The Department started to get the experts together to get the wording done by legal, etc. and then put in the decision process by coming to the

Retirement Plan and then going to the Board of Commissioners. He noted the Department wanted this approved by the Boards in June so by July 1st, the agreements could be in place. Mr. Ulm noted, at the same time, the Department realizes there is a transition period, so from an accounting standpoint they would be working with the Retirement Plan over two to four months to make sure nothing “drops through the cracks” noting we have to pay each of the health care companies every month a check for their premium, which is presently done in accounting and will continue to ensure that it continues to get done and gets transitioned. Mr. Ulm continued, the $400 million (which will actually be $500 million because they are putting in another $100 million soon) will not be immediately transferred to the Retirement Plan on July 1st, but would be moved over in an orderly fashion without having to immediately liquidate all the funds. He noted about 40% of the $400 million will be coming up within 30 to 60 days so it can be moved over without any special liquidations and into investments recommended by our advisor and whoever is handling the fund. Mr. Ulm reported, this allows actual control of knowing how much money is in there and how much money goes towards that liability. The Retirement Plan also gives more options in terms of the investments so the Department would get the same returns as the Retirement Funds get. He noted currently the Department is limited to fixed, short-term investments because of the concern over taxability. Mr. Ulm explained the Department has been getting about a 4% return and would expect, with the wider range of investments, we will get a bigger return which will also add and get the Department closer to getting that liability funded. We are now here to have the Retirement Plan Board discuss what their thoughts are.

President Romero inquired how this affects the Plan from a liability standpoint. Mr. Angelo responded referencing the Board package stating it contained a good package of materials including an analysis by PCA, which includes the mechanics of how the investment allocation decisions were made. He noted there was a lot of focus in this write-up about how the new fund would be used exclusively for health benefit, which is what GASB is requiring – it has to be dedicated. What is not as explicit is that the Retirement Plan is set in such a way that the funds can only be used to pay retirement benefit. Mr. Angelo stated one of the things he feels may not be clear to the Board this is not in any way “mingled in” or “overlapping” with the Plan’s current responsibilities, adding, basically, you are taking on a new job and are now running two separate plans. Mr. Angelo emphasized that as far as the funded status or the liabilities of the Retirement Plan is concerned, this is really a non-issue. He stated the wall around the Retirement Plan is something the Department is trying to mirror with the new health trust – they want that same type of legal focus/dedication between the assets and liabilities on the health side. Mr. Angelo stated, on the health side, using this GASB measure, if the assets are equally accrued liability, then all you have to fund going forward is each new year of service – which means you are caught up on a budgeting basis. He stated, under the GASB rules, you do an evaluation for the retiree medical plan. Mr. Angelo reported, in terms of disclosure, about 3 years ago, Segal was approached by the Department to take on the job of being their actuary for the evaluation of the retiree medical liability. They had been using their auditor and, under the new Sarbanes Oxley rules, you cannot be an auditor and a consultant. Because of this, since the Board is their principal client, Segal wrote a letter to the Retirement Board requesting permission to do this separate job for the Department and they were given permission. Mr. Angelo noted, for the last four years they have been producing an actuarial report on the post retirement medical liabilities for the Department.

President Romero noted he brought up this letter at a previous Board meeting. He commented that when the Retiree Health Care issue came up, he expected another letter from Segal notifying the Board of the project they were doing for DWP, adding he was concerned because the Retirement Board had not been notified.

Mr. Ulm responded it was only two months ago when the Department knew what the alternatives were, and where the funds were proposed to be placed.

In response to an inquiry from Commissioner Hogan-Rowles, Mr. Angelo introduced himself and gave a brief account of the Segal Company's history with the Retirement Board and their work history in general. He explained the governance issue between the Board of Commissioners and the Retirement Board is something they face all the time. Mr. Angelo noted that when the employer needed an actuary to replace their auditors, rather than go "outside the family" since the same data they collect for their pension valuation would be used for this valuation. He continued that there have been other projects that Segal has been completing in coordination with the Retirement Office, but stated even though they did not necessarily come back to the Retirement Board for each separate item, they have generally all been very closely related. Mr. Angelo stated that he understood President Romero's question as to at what point is it a separate assignment.

President Romero responded that he was apprehensive in moving forward with this issue and wants to really scrutinize what is going on, adding that they were being asked to make this huge decision in a two-month period.

Mr. Moore stated that Mr. Vazquez first mentioned the Retiree Health Plan Benefit issue back in March and stated that he really took note because this is a very significant item. He commented that he noted that the Department has been "scrambling" to get this issue settled.

Mr. Ulm stated the Department had switched external auditors from PriceWaterhouse to KPMG. He added, according to KPMG, the Department needed to go back and restate the prior years. PriceWaterhouse did not agree with this and the two auditors argued on this point for two months. Mr. Ulm stated, in the end, KPMG was correct and PriceWaterhouse did have to restate the prior year and finalize this year's closing very late – at the end of January, early February. He explained, the Department then focused on what could be done to resolve the issue.

Commissioner Hogan-Rowles stated she recalls when Mr. Vazquez brought the item to the Board's attention; however, she was unaware the process was moving forward. She commented she did not know about the relationship the Segal Company has with the Department and was glad it has been acknowledged. Commissioner Hogan-Rowles noted the change would be a huge added responsibility to the "realm of work this body does," but she feels confident in the Retirement Board's ability to successfully handle the new duties. She inquired if the Department recognized the issue of increased staffing needs and does the Retirement Plan office have sufficient staff to handle the new workload.

Mr. Ulm responded, currently, the investment portion has been handled in Mario Ignacio's office and Mr. Ignacio has touched base with Sangeeta regarding this. He stated the idea is to appropriately address any staffing needs. Mr. Ulm stated that, in staffing time, it was thought an individual could spend a week, on a quarterly basis, doing the investment portion of this. He noted that the Retirement Office has other investments so it is part of the job they are currently doing, the feeling being that this will be part of the investments currently in the Retirement Plan so the investment part of it will be done by some of the same people. Mr. Ulm noted the main function of the accounting aspect is to determine premium amounts to be paid to the various healthcare providers based on reports from the retirement plan and human resources to determine the appropriate premiums. He explained currently there is no full-time Financial Services Organization (FSO) staff member assigned to all of these duties, but they are determined to ensure all duties are completed and no task "falls through the cracks." Mr. Ulm stated in the future, if it is determined a full-time or part-time staff member is required to carry out the additional duties, the Department will make the necessary adjustments.

Commissioner Hogan-Rowles noted that staff's memo recommended that, after the transfer, additional staff and resources will be required to provide proper governance and oversight associated with the Retirement Plan Office managing the Other Post Employment Benefit (OPEB) funds. Ms. Bhatia explained, referencing the memo from PCA, the additional duties will be investing in the mandates the Retirement assets are currently invested in. She added, more importantly, keeping track of the initial investment, the additions to the fund, segregating OPEB assets from WPERP assets, the allocation of the investment income as it is earned, and inflows and outflows out of fund. Ms. Bhatia stated this is a new process and Staff is not familiar with the task. She explained she has spoken with Mr. Vazquez, Mr. Ulm, and Mr. Ignacio regarding this matter and it was agreed the Retirement Office would have continuing support from FSO until the function can be absorbed and someone has been positioned to complete the duties. Ms. Bhatia noted, while it appears that it may be small part of the general duties, the change would create new functions for the Retirement Plan Office and appropriate staffing resources need to be addressed.

President Romero inquired if Staff has any experience in the initial transition work that would need to take place. Ms. Bhatia responded there are two aspects of the transition. She stated, when staff spoke of transitions, they were talking about turning over the assets that are currently in existence and investing those assets in the mandates as they are in the Retirement Plan. Ms. Bhatia stated she later had a conversation with Mr. Ignacio, Director of Finance at FSO, who oversees the investments. FSO has fixed income securities, which use a different custodial bank than WPERP, who uses Mellon. She stated, it was thought, based upon Board approval, the assets could be brought over "as is" in the interim period instead of liquidating the assets and investing, provided all of the contracts indicate the Pension Plan is the contracting authority, as opposed to DWP. Ms. Bhatia mentioned the Plan would take over the oversight of the investments and the accounting would remain an FSO function. She also noted, based on her conversation with Mr. Ignacio, the emphasis is on setting up a separate account as opposed to earning the larger returns, which would be a goal over time. She added in the near term that would be the simplest way to accomplish this. We change the contracting authority, at least for now, have a chance to assess what exactly is required, and then go through the transition of turning over the assets – noting 40% are due to mature relatively soon, so we need to carefully look at the whole process. Mr. Ulm stated, while the funds are maturing and moving over, the experts have time to determine the best investment options for the Fund. He stated it is expected the employee retiree benefit will have a very similar timeframe as Retirement so the investments may be really similar and you wouldn't have to worry about it, but added, after review by the experts, it may not always be the case. Mr. Ulm stated, as the money gets newly invested, it can be based on those goals which could be up to a six month time period.

Mr. Rue stated Ms. Bhatia is trying to devise a plan to first obtain ownership and then decide what do you do with the assets later. He stated first get the ownership, then move on implementing the assets. Once the ownership takes place it should be on a fast-track to get the investments invested appropriately. Mr. Rue reported, what that means to him is get the assets over to Mellon and get them invested in the appropriate asset allocation, which he added is summarized in PCA's memo in the Board package. He indicated, as Ms. Bhatia suggested, that can happen after getting the jurisdiction/ownership over the assets.

Mr. Angelo reiterated, there are two things, looking just at the investment side, that you are trying to accomplish: 1) to have the assets count and 2) to get them invested in a way that will ultimately generate the income that the Plan gets from their balance portfolio. He indicated, as long as the transfer of ownership takes place during the fiscal year, when the valuation is done they can take this into account and then go to a plan that has zero assets to a plan with $400 million in assets. Mr. Angelo stated currently the Plan has an 8% interest assumption; however, the OPEB will only have a 6.5% interest assumption until the funds are actually invested and running.

President Romero inquired, with the cost of health benefit increasing 10% -15% annually, is the assumption 6.5%. Ms. Bhatia replied in the negative stating this was the interest rate. Mr. Angelo clarified there are several types of assumptions actuaries use. One is how much the assets are going to earn. He added, we also make assumptions when they are trying to guess how much benefit can be paid out in the future. He stated with the pension plan we assume how fast salaries are going to increase, noting the faster salaries go up the faster benefit go up. Mr. Angelo continued, a medical evaluation is not based on salaries, but does depend on the cost of medical inflation. Built into this valuation is the assumption that medical costs are going to go up and their short term assumption is 12%, noting this is a whole separate assumption that the Board has never dealt with as Pension trustees.

President Romero inquired if the OPEB is severely under-funded and the Plan is well funded, would the Department decrease its contributions to the Fund based on the assumptions of the Plan's funds. Mr. Rue responded this would be true if the Retirement Plan and the Health Plan were commingling; however it is not mandatory to commingle the liabilities. Attorney Wilkinson noted legally the Department must not cross the line of using the Plan's assumptions to decrease contributions to the Fund. Mr. Angelo explained if the Retirement Plan is funded at one level and the Retirement Medical Plan is funded at another level it will not change the way the two different contribution levels are calculated, even if you had a surplus in the Pension Plan and a shortfall in the Medical Plan. He also stated if the Plan and the Fund used the same asset allocation then possibly the same investment earnings assumption would be used. Mr. Angelo mentioned if the Plan and the Fund's assets were commingled, then there would still be two separate reports; however, they would both end up having the same investment earnings assumptions.

Commissioner Hogan-Rowles stated she does not believe it is advantageous to commingle the funds, because there will need to be separate investment policies, goals, and objectives for each of the funds. She inquired if she was correct in assuming, in a broad sense, part of the strategy is the ability to invest these funds more broadly than they were invested with DWP. Mr. Ulm replied in the affirmative. Commissioner Hogan-Rowles affirmed that we expect over time to try to create a different set of policies for investing these funds so we do get a higher rate of return over time and we would have the jurisdiction within which to do that. She again asked if the Department has made a commitment to the Retirement Plan office to provide the necessary staffing to handle the additional duties related to the transition. Mr. Ulm responded this is an issue that could be immediately addressed to Mr. Deaton. He reiterated the benefit to employees and dollar savings to the Department. Mr. Ulm also stated the Retirement Board can grant another position based upon the new responsibilities. President Romero inquired of Ms. Bhatia if adding staff is as simple as the Board granting another position. Ms. Bhatia responded the matter has not yet been discussed but wanted to note dedicated resources are necessary because as the funds change over to the Plan there will be broader investment options that may entail additional duties. She also stated the Plan has several upcoming projects and there is a need to prioritize.

Mr. Ulm stated in reference to the earlier statement made by Commissioner Hogan-Rowles about not commingling the funds, efforts have been made to ensure no dollars funded for Retirement may go to the Health fund and vice-versa. He stated from an investment perspective the dollars are to be commingled and go in the funds, but we have the proper accounting and controls in place to know which funds belong to the Retirement Plan and which to the Health fund. Mr. Ulm mentioned LACERS' invests the funds together, but keeps separate tracking of each one. Mr. Wilkinson noted Mr. Alex Leonard of Mellon Bank will speak on the concept of a master trust that will keep these things separate. Mr. Leonard stated GASB 45 allows plans to commingle assets, similar to what corporations do through a master trust configuration. As an example, Mr. Leonard noted the Department has union and non-union members and corporations have a similar situation. He stated each of the plans might have different defined benefit plans; however, they do not necessarily have distinct trusts. Mr. Leonard stated the corporations would have a set of retirement assets and allow each plan to purchase into that "basket" of securities. He stated as the custodian, Mellon Bank could set up the accounting to make sure the assets are separated from one plan distinctly from the other plan. Mr. Leonard stated there are different levels to construct this based on the desired level of investment flexibility. He noted unitizations could be created at the total plan level to ensure the total Retirement Plan earns the exact same fund return the Retiree Medical Plan earns. Mr. Leonard mentioned there are different factors to consider and there should probably be a different asset liability mix. He stated the asset liability mix could be controlled for the Retirement Plan versus the Medical Plan. Mr. Leonard explained specific manager accounts or asset classes could be unitized. He stated it makes the most efficient sense to unitize the specific manager accounts that the Plan currently has. Mr. Leonard stated unitizing the specific manager accounts provides the additional benefit of economies of scale from a fee perspective.

President Romero inquired, if there was a commingled account and the money manager decided to sell 100,000 shares, how many of the shares would belong to the Plan and how many to the Health Plan. Mr. Leonard responded when a unitized structure is created there would be a plan account for the Retirement Plan and a plan account for the Medical Plan. He stated when the underlying manager account is unitized, based upon the purchase that the Medical Plan will make into it, there would be a pro rata split. President Romero inquired who determines the split. Mr. Leonard responded it is determined as you contribute into the underlying manager accounts. He stated there is some investment discretion and deferred to Mr. Rue to explain. Mr. Rue commented the administration of the unitization is with the custodian bank and the unitization itself is unknown to the managers. Mr. Leonard added this is transparent to each manager. Mr. Moore commented that this was like a mutual fund. Mr. Rue agreed, recapping that it is like a mutual fund where the share owners are these big plans -- the Retirement Plan and the Health Plan. Mr. Angelo explained, in the simplest case, if the Plan and the Fund have the same asset allocation and two-thirds of the money belongs to the Plan and the other one-third belongs to Health, then each transaction, more or less, would be slit two-thirds for the Plan and one-third for the Fund. He noted if you do have a different asset allocation, how it is split will depend. He noted there will be a lot of prorating and it will be necessary to keep track of the how much of the assets belong to the Retirement Plan and how much belong to the Health Plan for each account. Mr. Leonard responded the custodian is responsible for doing the accounting of the Plans. Ms. Bhatia stated we would have to rely on Mellon's reports to keep track of the segregation of funds.

Mr. Rue inquired if the contributions, investment income, withdrawals, and benefit payments are all unitized as well. Mr. Leonard responded in the affirmative, stating in addition to those services Mellon also offers plan specific expenses. For example, if you have a structure where you believe that DWP corporate was going to pay for specific retiree medical plan expenses, those can be paid at the Plan level so as not to impact the Retirement Plan.

Commissioner Hogan-Rowles inquired if Mr. Leonard was referring to the $19 million dollar reduction as noted on page 13.6 of the Board package. Mr. Angelo responded to her question, stating no and explaining the $19 million was referring to the $400 million in assets. He continued if the Plan is able to count the $400 million in assets, then that gives it an unfunded liability of so much. If it does not get to count the $400 million, its unfunded liability is $400 billion bigger -- the "mortgage payment," the amount you have to pay each year to pay off that $400 million is $19 million. He added you are talking about amortization costs – if you suddenly had $400 million in assets disappear, then your amortization costs would go up, because right now DWP is getting zero credit for this amount. Mr. Angelo stated two reasons for doing this is to have the money count and the other to invest it. The amount by which the price goes up because you can't count the $400 million is $19 million, adjusted for salary each year, for 30 years

Mr. Moore commented he believes the reason the Department is driving so hard to have this change effective by the end of the fiscal year is because the $19 million is a relevant issue from a net income standpoint and as you are asking for two rate increases you want to do all you can to cut those costs.

Ms. Bhatia stated she understands that it is not for this fiscal year, but the next fiscal year.

Commissioner Hogan-Rowles clarified we have to make the change so it will start for the upcoming fiscal year.

Mr. Ulm stated one of the questions is if the money is in a separate fund where the interest rate assumptions are different, is it appropriate to go back and review the study that was done for the prior year to impact that before the end of the fiscal year.

Mr. Romero asked if this Board assumes fiduciary responsibility for this. Mr. Wilkinson replied in the affirmative.

Mr. Canzano stated, currently we are funded at 93.6%. He asked Mr. Rue how he would rate that. He replied, generally, good. Mr. Canzano noted the L.A. Times ran articles that we are $400 million unfunded and members come to the Board asking how could we possibly be short this amount because they do not understand all the intricacies of this situation. He added that we have a lot of concerned members, adding he himself is comfortable with our present funding level. Mr. Canzano recapped that we are talking about moving $400 million and possibly $500 million under the umbrella of this Board, but he noted that he had not heard anyone mention that there is a $1.7 billion liability associated with this. He stated he does not understand why this issue has not come up yet. Mr. Ulm stated that they did do a presentation to the Board of Water and Power Commissioners about one month ago where they showed that under the Retirement Plan you are over 100% funded until the last year or two because of the market. The $400 million that they have with Medical would also be rated as good or very good in comparison to others. Mr. Canzano countered that many are “pay as you go” and looking at the written history it shows the Department started this fund in 1995. The origin of the Department making this move was at the insistence of IBEW, Local 18, not the Department, so he stated he is a little bit skeptical of issues that are not surfacing to the extent that he is responsible to 8,200 members of this Plan.

Mr. Ulm responded it would make him more comfortable as an employee and a future retiree to have the visibility of where we are with the medical benefits as well as the retirement benefits. Mr. Moore replied, from a retiree standpoint, the biggest issue is security of your pension fund, which is why people ask questions as to the extent to which we are fully funded. He noted their entitlement to a pension is locked in. Mr. Moore reported until 1995, the funding for the retiree medical benefits was the annual appropriation of the Board when it passed the budget – there was no funding behind it at all. He noted the Department has started the process of creating a fund and starting to fund it, and obviously it is far short of 100% funded. Mr. Moore expressed, from a retiree standpoint, he is very anxious to see this go through because it locks up the funds as solidly as you can lock them up for heath care benefits and we have to assume that the management and the Board of Commissioners is going to continue funding this until it gets up to 100%. He added he feels much more secure knowing this will be put in place adding he was never particularly comfortable with the other approach. Mr. Moore explained this approach locks in these funds and locks us into a program where ultimately the Department is going to have to fully fund it. He stated he feels more secure knowing that some future Mayor and some future Board isn't going to try to "lop off" medical benefits as is happening all over the country.

Mr. Rue stated that the unfunded liability has always been there. Mr. Canzano countered that it has never been the responsibility of this Board. Mr. Rue continued it is still the responsibility of the employer to fund it and the Retirement Plan's responsibility is to invest the assets that we are going to receive. He stated what is important is to communicate to the constituents that you have inherited a plan, rather than you are now running a plan. Mr. Canzano stated he agreed with Commissioner Hogan-Rowles that there would be no better group to take this over than the Retirement Board, but he would like someone to explain to him how critical it is for this to take place in a two-week timeframe before the end of the fiscal year. He asked if it is a pro-rated amount what would have happened if this had taken place on July 1st. Mr. Ulm responded when this first came up it was thought it had to be effective at the start of the fiscal year. Since then, it is now thought it can be approved after July 1st and if we make that transition, it would still be effective in that fiscal year. He added we would not be able to do anything with the current year ending in June and from what we have been able to determine there isn't a deadline of having this done at this Board meeting or the June 20th Board of Commissioners meeting. Mr. Ulm noted this is such a benefit to everyone and feels it is important to have it done cleanly so it is done prior to the beginning of the fiscal year and no one can question that this is our policy. He added we can still get the benefits of implementing it after July 1st. Mr. Canzano replied that he feels that this is a much more reasonable position than trying to make such a monumental decision without looking at all the aspects, not the least of which is determining if this is a meet-and-confer item. Commissioner Hogan-Rowles stated, regardless of what the timing is, if we have a chance to rectify what she considers to be a bad approach to managing almost $500 million dollars in health care benefits for the retirees, why would we wait. Her concern is the Board of Commissioners is looking for other sources of income and at some point they could use these funds to help balance some of the Department's budget issues. Also important to her is that if the Plan can get access to these funds rather quickly, we can at least move the funds and decide later how we want to invest, giving us a chance to change that investment scenario with at least 40% of the funds in the next few months. Commissioner Hogan-Rowles noted we are not going to assume any tax liability or change in status over the next six months. Attorney Wilkinson stated nothing they are suggesting would impact the tax status per our outside tax attorneys. Mr. Leonard added, at the last Board Meeting Mr. Vazquez asked if Mellon could provide a conversion timeline for what it would take to move these assets. He stated the standard timeframe is 6 – 8 weeks and if we had to physically move these assets by July 1st, they could compress that timeframe. He does not believe that operationally, 3 weeks provides them the needed safeguards. Commissioner-Hogan Rowles stated that the Board is just looking for a vote, as long as it is off the Department's books. Mr. Angelo stated one way to handle this is to first do the transfer of ownership with the current custodian. This basically puts the "trust umbrella" over the assets and then you have a certain amount of time to maneuver both the short-term and longer-term actions. Ms. Bhatia added, with FSO's help, staff should be able to do this and get a chance to develop a policy to address all the concerns. Commissioner Hogan-Rowles stated this gives you a chance to go back to your membership and let them know what we are going to be doing and let them know we want their input. This gives you a timeframe. She said she feels getting control of the funds is the most important aspect. Mr. Ulm stated that this was the point of implementing GASB 45. President Romero stated what is important is that they do their due diligence as a Board – as fiduciaries he feels they need to follow a process that is accepted in the pension community beginning with asset liability studies, asset allocation studies, policies, procedures, guidelines, who's going to do what – basic governance. What he is hearing is, take the money and we'll figure it out later and he feels that is a breach of his fiduciary duty, not knowing what the liabilities are and not knowing where the assets are going to be. President Romero noted perhaps the suggestion of a third party trust for a year would be the quick fix – the Department will get its benefit and this Board can really take its time and do its due diligence in doing proper policies, proper allocations, proper liability, proper searches, etc. He stated this is what is what being a trustee, a fiduciary to the Plan is about, taking our time and doing it right the first time. Mr. Moore compared this process to the process the Retirement Board went through when they substantially changed the asset allocations of the Retirement's pension plan portfolio. He added there is a pot of money there and they are trying to lock up that money, then you can go through the deliberate process President Romero spoke of. President Romero asked if we could lock it up with a third party. Mr. Ulm stated the third party sources is something Robert Rozanski had brought information on. Commissioner Hogan-Rowles stated she does not particularly have any more confidence in a third party than she would with the Retirement Board stating they will watch over it "like a hawk" as opposed to giving it to a third party and now having to watch them. She stated she feels one of the reasons the Board is being conservative about this is because of the many skills the Board has to pull from but in doing so she does not want us to miss the opportunity to lock down the funds and then apply the Board's skills of due diligence, theory, setting objectives, etc. and working with our consultants to go forward to fully implement in the way this Board deems fit.

President Romero reiterated, as the fiduciary, he does not feel comfortable in moving forward, adding he is responsible for this money and without seeing documents and guidelines, parameters, etc. he is not comfortable "babysitting" something where there are really no rules, no foundation, no direction, no liability study, etc. He stated this a full Board and everyone can vote, but he would rather wait and get it right.

Mr. Canzano commented he liked Mr. Moore's statement about this ensures and locks in the funds and the whole point of the GASB 45 is to do that and he supports that idea. He stated he would not like to see the funds that are in the $400 million evaporate anywhere, but he is concerned that no one is talking about the $1.7 billion liability that this Board will be taking on. He has a problem with the sense of urgency and he does believe that this is a meet-and-confer issue. Mr. Canzano commented he may be wrong on that point, but he does not have assurances from someone that he would respect their legal opinion that it is or is not a meet-and-confer issue. All he has is a memo from Attorney Mike Wilkinson, who he does trust, that states this *could* be a meet-and-confer issue. He state he could not, in good conscience, take on this liability when he does not know the answers to this issue, when we are talking about a $1.7 billion liability, and we are projecting out thirty years but talking about the rest of the history of the Department. Mr. Canzano state this is probably a really good thing, but he cannot accept that we have to make the decision now and pick up the pieces later. There has not been enough time, enough deliberation, enough information, and that is his position.

Mr. Moore commented there was clearly not enough votes at the table to move this issue forward. He asked if there is an appropriate period of time this could be brought back based on the Board's issues and concerns being addressed. Mr. Moore stated he is anxious to see this move as quickly as possible, asking again how quickly we could proceed. President Romero noted Mr. Canzano's concerns is the meet-and-confer issue so the Board would need something in writing stating whether or not it is a meet-and-confer issue – once that gets established we could move on this issue as fast as our consultants can do a liability study or allocation study. Mr. Rue responded, as long as you develop a process, keeping in mind an asset liability study is very long term, this is a long-term planning issue. Whether or not an asset liability study occurs right now or four months from now, will not make a lot of difference. He is recommending that when you get jurisdiction over these assets you get them to a 60/40 mix as soon as possible which is the important thing – going from a 100% bond to 60/40. Then you do the asset liability study where you might go to 75/25 or 80/20, but the return differential is different and it might take 6 months to figure this out. He stated you've taken away the concern of getting things done very quickly, and allows the pressure of getting this solved off the table and now you can take your time and study this issue as a Board in the context of your other Retirement Plan asset liability study. Mr. Angelo stated that whatever differences might be identified in the liability, there is not a six-month, or one year or even a three-year effect. It is really more over 4, or 5 to 10 years that it starts to make a difference. He added, you have a sense that you cannot prudently take on this responsibility without doing the asset liability study first and that technically is simply not the case. President Romero stated you do your asset allocations based on your asset liability study, and here you are telling us to just put the allocation at 60/40. This is contrary to what he's been told is his fiduciary responsibility. Mr. Angelo answered, you have a balance of assets that is appropriate for a retiree liability of some kind -- you could wait and do this in five years, but there is nothing so different about the retiree medical plan as opposed to our pension plan that you cannot trust your current asset allocation for a good period of time -- the liabilities are not that different. He noted the Board spent several years developing an asset allocation that is appropriate for a retirement liability – this is another kind of retirement liability and is not so different.

President Romero asked PCA how long it took to do their asset liability study. Mr. Rue responded the question is do we need a different asset allocation study and we do not know the answer to that. He noted his advocacy would be during the second half of 2006, after some preliminary discussion of what an asset liability study would entail, you would probably want to do the asset liability study for the retirement plan at the same time. Mr. Rue expressed one of the potential outcomes is that they both deserve the same asset allocation – we don't know the answer so you want to develop a study with a similar kind of set up where you are able to wrestle with those kinds of decisions in a educational kind of format. He reiterated he thinks the asset liability study should not just be done for the medical plan by itself but it should be connected to the asset liability study for the overall retiree benefits. President Romeo noted that they do not know anything about health care. Mr. Rue responded during the asset liability study you will get educated on the nature of those liabilities. Answering President Romero's concerns he stated we have learned lessons working with this Plan. A lot of cash was sitting on the books through the prior transition and, regardless of what the transition costs were, there was a lot of opportunity loss. Mr. Rue noted the Board has the opportunity to move the allocation from a short-term return into a blend that is presumably going to get you a higher return and that can do that within a series of weeks. He stated you can worry about the incremental changes later. He explained that this is probably much more beneficial then worrying about one or two transitions. Mr. Rue stated he does not know which way the equity market it going to go; but long term, if they are going to produce a 10% return a year, you've just left some money on the table by leaving it in bonds.

Commissioner Hogan-Rowles asked that the $1.7 billion liability be addressed in layman's term. Mr. Canzano added he would like to be shown the plan to fund the $1.7 billion. Mr. Ulm stated in the past the liability for the Post Retirement Medical was calculated at $800 million and that was when we had PriceWater House doing the actuarial study and the auditing. He stated when we switched over to Segal and when they received the actuarial studies it was found that the Department had to come up with $100 million in expenses that year and the liability went up to over $1 billion. He stated a couple of major things happened, one was the previous actuaries weren't escalating the health care costs at anything near what they had historically been and were projected to be and two is that the discount rate that had been used was about 1 ½% higher than the appropriate discount rate. He noted we also happened to get hit by a one month discount that had to be used which dropped ½% and added another couple of million dollars to it. Based on those changes in assumptions, the liability went up to over $1 billion and up until that point the Department thought they were doing well since they had $400 million toward an $800 million liability (50%) and maybe in four to five years it would be 100% covered. Mr. Ulm stated this all changed when the more accurate assumptions came out, adding now the Department feels very comfortable with the liability. He stated the liability is still $1.5 to $1.7 billion and funding at $100 million for the next five to ten years is currently planned.

Mr. Angelo stated funding at that level will pay the normal costs and the unfunded liability over 30 years which is a longer amortization period, and a longer funding period than currently used by the Retirement Plan. He stated GASB requires that you don't use anything longer than 30 years. Mr. Canzano stated he was impressed with the level of information that Mr. Segal was passing on, adding that before the Board were to accept this liability and this responsibility and also the privilege of locking up these funds and keeping them safe for everyone, we might want to consider having a 15 year payoff. He explained he is not saying that 30 years is a bad number, but it is something that has never been discussed with him before.

Mr. Angelo asked the Board to consider what the alternatives are. He stated the opportunity that the Board has is to get involved with something that everyone agrees is a good thing and that is securing the retiree medical commitment for the members. He asked the Board to be as prudent as they are in all their other considerations to really confront how can they help and not kill the opportunity to be the "golden goose" but to "be the nest that the golden goose sits on." Mr. Angelo stated if there is an advantage to being involved here it is going to involve a balance of the Board's responsibilities and the responsibility retained by the employer. He stated when you sit here as trustees, the question of whether it is a meet-and-confer issue even a trustee issue – these are the type of questions that come up. He stated they need to ask themselves do you want this to happen or not.

Mr. Moore referenced the time when they were going through the transition to the new asset allocations where the Plan had as much as $2 billion just sitting in cash for a long time. He stated the decision Board makes now as to how rapidly they do this governs directly whether they are going into another situation just like before. President Romero replied the quicker they can resolve the meet-and-confer issue the quicker they can move forward on this.

Mr. Canzano commented he would like the City Attorney's opinion on record regarding this. He doesn't see any reason to drag out the process unnecessarily, but when you are talking about a liability of $1.7 billion coming under an umbrella where it hasn't previously existed, he would like to be able to see some studies and discuss this more freely.

Mr. Rue asked if this needs to happen before taking "ownership" of the assets. Mr. Canzano replied he needs to know the implications of taking on those assets. He would like to know what is the funding plan and how is this liability going to be funded. In answer to Mr. Rue's proposed scenario, Mr. Canzano stated he would like to see a prudent timeline. Mr. Rue commented if the Plan took ownership of the assets, then PCA will develop a timeline that is comfortable to everyone and there won't be any pressure from anyone else to "ramp up."

Commissioner Hogan-Rowles asked, once all the issues are resolved, would the Board be comfortable in coming to a decision at the next meeting. In response to Mr. Rue's question, Attorney Wilkinson stated it would take about 2 weeks to get an opinion from the City Attorney. As soon as this letter is done, it could be sent to each Board Member. Commissioner Hogan-Rowles summed up we have money sitting on the table that is currently being invested in the lowest common denominator of asset management you can have in terms of interest rates and returns on those investments. She continued, what is being suggested today is that we "vote" to take ownership of the assets, knowing that we can leave them sitting on the table still achieving the same bond rate or get them to a better mix which will benefit every retiree in the system. The questions are is it a meet-and-confer, do we have the ability and the consensus to take the funds off the table and get them restricted and do we have the agreement and consensus to develop a timeline of how those policies would happen once we have that consensus.

Mr. Canzano wants it absolutely, clearly stated, in writing, that this has no negative effect on the memberships of the retirement plan and we are not applying any of the $1.7 billion liability to the Retirement Plan.

Mr. Angelo stated the distinction between having an investment policy versus having a plan on how you get to an investment policy is laid out in PCA's memo included in the Board package. He stated this gives a good outline of a game plan that gets you to where you eventually need to get to. President Romero added that he needs more time to review this. He stated they needed to keep in mind when the Plan was initially transitioning they did have a policy and a plan. President Romero added he is now being asked to take this money with no plan. He reiterated that he is asking that this Board be part of the process going forward once it is approved through the meet-and-confer because the first mistake was everyone working without informing the Board. He added, now we need to take a step back and ask what is going on. He stated it is now time to get that comfort level, get that trust, and work together adding that this is not going to happen July 1st.

Mr. Canzano asked, in reference to GASB 45, what was the mandatory requirement date. Mr. Ulm replied it was completed on June 30, 2005, so it allowed for anyone having a fiscal year that started after June 30, 2005 to implement it. Mr. Canzano asked if we did this in August, would we be in violation of GASB. Mr. Ulm replied in the negative, stating that this has been implemented. Mr. Angelo added the Department's financial statements are in compliance with GASB 45.

President Romero clarified that he was not trying to be difficult, but this is permanent and he wants to make sure the Board is doing the right thing.

Mr. Canzano said he would like to see some type of newsletter or press release, in draft form, to see how we are going to inform our membership about this change. Mr. Moore agrees that this also speaks to the existing employees because it is talking about their future medical costs being covered and it important to clearly tell the existing employees and the retirees what the Plan is doing. He stated he would like to see more than a simple paragraph. Ms. Bhatia asked if they would to see this in the active or retirees' newsletter. Mr. Canzano responded it should be in both. Commissioner Hogan-Rowles stated that both Mr. Angelo and Mr. Rue will help staff with that language. Mr. Ulm suggested a General Manager bulletin. Commissioner Hogan-Rowles asked that management make themselves available to the Board over the next couple of weeks in case they have questions, etc. so if additional questions come up, they do not have to wait until the next meeting. Mr. Wilkinson reminded the Board to be conscious of the Brown Act.

President Romero called for a fifteen-minute break at 1:15pm. The meeting reconvened at 1:30pm.

15. Discussion of letter from Mayor Villaraigosa regarding investments in companies having operations in Sudan **15.1 – 15.20**

Item was 15 was taken out of order. President Romero requested Ms. Bhatia provide background information on the matter. Ms. Bhatia explained Staff received a copy of a letter Mayor Villaraigosa had written to Commissioner Mary Nichols, Water & Power Board of Commissioner's President. She stated, Mayor Villaraigosa's letter directed staff to:

1. Identify any companies the Plan invests in that have business operations in Sudan and determine the exact nature of those activities.
2. Identify and ensure that companies the Plan invests in are not in any way supporting the genocide in Darfur, Sudan.

Ms. Bhatia stated a preliminary investigation had been conducted prior to the May 16, 2006 Board of Commissioners meeting. She noted she had been informed a verbal update had been provided at the May 16, 2006 Board of Commissioners meeting, indicating a complete report would be provided to the Retirement Plan Board and a copy of the report would be sent to the Board of Commissioners. Ms. Bhatia stated the investigation found there is no official list of companies that are determined to always do business in Sudan. She stated staff compiled a list of companies based on communications with LACERS and Police and Fire Pension Plans. Ms. Bhatia noted a list is provided on page 15.2 of the Board packet which list the names of the companies doing business in Sudan as well as the amount of the Plan's holdings in each company. She stated Staff is, however unable to determine if any of these companies are supporting the genocide in Darfur, Sudan. Ms. Bhatia mentioned some of the Plan's investments are in commingled funds and in order to divest these funds the investment manager would have to be changed. She stated Mr. Rue has researched the issue and was available to provide information to the Board regarding what other Pension Plans are doing about the Sudan issue.

Mr. Rue stated the genocide in Darfur, Sudan is a big, terrible issue. He stated the issue for a Pension Plan is how to respond. Mr. Rue mentioned on Page 15.5 of the Board package is a table, which details a spectrum of responses from different public pension plans. He mentioned some of the responses are due to State Legislators enacting laws requiring certain actions of underlying pension plans. Mr. Rue noted the laws enacted by States are often more broad than originally intended. He mentioned because of laws passed in New Jersey and Illinois those pension plans have had to divest huge amounts, while CalSTRS being much larger only intends to divest $11.5 million. He stated there is not a consensus as to what exposure to Sudan means and a variety of response options exist. He explained the Plan would incur significant transition costs if a blanket divestment approach were taken, because entire managers and portfolios will have to be sold off. Mr. Rue continued to explain this is not an easy thing to tackle however the challenge is to be proactive. He stated PCA has advised other funds to get into a role of active engagement with the companies they believe have exposure to Sudan.

President Romero inquired if there is any California legislature regarding this matter. Mr. Rue responded nothing has passed at the state level, however there is pending legislation. Attorney Wilkinson noted the California State Assembly passed AB2941, and a Los Angeles City Council committee has issued a report to support the bill. He added AB2941 affects CalPERS, CalSTRS and a couple of smaller state funds, but it does not directly affect the Plan. Attorney Wilkinson stated he attended a CalPERS attorney roundtable and the Sudan issue was brought up for discussion. He stated many of the other pension plans in the State, with the exception of CalPERS and CalSTRS are farther behind the Plan in terms of implementing action regarding the Sudan issue. Attorney Wilkinson stated one of the biggest issues is identifying the companies having exposure to Sudan. He reminded the Board the Mayor's memo is actually a suggestion and they still have a fiduciary responsibility to perform. Attorney Wilkinson also stated the Mayor's memo could not be considered under Proposition 162 as an order the Board must follow in terms of divestiture. He added Mr. Rue, himself, and others will be able to provide the Board with advice in the upcoming months.

Mr. Rue stated the CalPERS position is to consider divestment if the State of California will indemnify them against economic loss. He stated it was interesting for CalPERS to take such a position because CalSTRS has reported incurring $600 million in opportunity losses due to divesting from tobacco and pension plans saw huge economic losses in relation to divesting from South Africa. Mr. Rue stated divesting can go either way, but has not been a benefit to plans. Mr. Rue commented, as a fiduciary choosing to divest, historically speaking, is to trade economic losses with larger human rights' global principal type of issues. Attorney Wilkinson added AB2941 and the South Africa legislation indemnified the board members, but not the fund. He specified this meant board members would not be personally liable for any economic losses the plan incurred, however the plan was not protected from lawsuits. Mr. Rue noted the CalPERS position on divesting is, if the fund is indemnified by the state.

Mr. Canzano inquired if Attorney Wilkinson and Mr. Rue were referring to indemnification from class action lawsuits brought against the Plan. Attorney Wilkinson responded not necessarily a class action lawsuit stating any type of claim where an individual claims the Board violated its fiduciary duties by making certain actions.

Commissioner Hogan-Rowles commented she was heavily involved in the advocation of legislation to divest from South Africa. She mentioned it took approximately ten years for the legislation to pass and have movement. Commissioner Hogan-Rowles stated divesting from South Africa is what led to the end of apartheid and Nelson Mandela's release from prison. She noted the positive impact gained by divesting from South Africa was much greater than any economic losses that were incurred. On a personal note, Commissioner Hogan-Rowles mentioned her family took an economic loss by withdrawing their own stocks from companies invested in South Africa. She stated it must be acknowledged the actions of California, particularly Los Angeles, have a world wide rippling effect. Commissioner Hogan-Rowles commented she does not know who is on the CalPERS board and therefore cannot explain why they choose their course of action. She noted according to the statistics provided by staff, only 3.47% of WPERP international investments are with companies identified as having business operations in Sudan. She also mentioned this represents only .65% of the total fund, so any losses incurred could possibly be made up in other areas. She noted the greater impact and more important ideal, is the Plan not investing in a country conducting genocide on its population. Commissioner Hogan-Rowles mentioned she was especially concerned because Sudan is an African nation and history has shown conditions on that continent do not improve until the Western World steps in. She urged the Board to acknowledge there may be economic losses, but to consider the significance the principle. Commissioner Hogan-Rowles requested Staff compile statistics on the estimated potential losses.

Mr. Rue suggested as a next step “exposure” to Sudan is defined. He mentioned Royal Dutch Shell Group, Total SA, and BP are large companies all being identified as having exposure to Sudan. Mr. Rue stated even divestment proponents have been against divesting from all companies with exposure, because some of the companies are actually helping the citizens of Sudan. He noted one of the firms the fund has holdings in, China Petroleum, is clearly recognized as giving revenue to the Sudanese government.

Ms. June Kim approached the podium. President Romero recognized Ms. Kim.

Ms. Kim explained none of the companies listed are domiciled in Sudan they are all large, global, multinational, energy or oil companies where a portion or small percentage of their business may be in Sudan. Ms. Kim stated it is undeterminable exactly what type of activities they have in Sudan and there is a large grey area. Commissioner Hogan-Rowles responded Mr. Rue identified China Petroleum as having a direct link to the government, noting there may be a way to determine the type activities the company is linked to.

Mr. Rue replied someone other than himself determined China Petroleum’s link to the government and Ms. Kim’s point is well taken. He mentioned, as an example, New Jersey’s PERS may have to put Pepsi and Coca-Cola on their divestment list due to having “a couple of dispensing machines in Sudan.”

Commissioner Hogan-Rowles stated she believes it is always easier to go against divestment by minimizing the amounts of money involved or downplaying the directness of the company ties to the area in need of assistance. She noted regardless of how insignificant the Plan’s holdings in Sudan are, the issue needs to be researched and the Plan’s options must be determined. Commissioner Hogan-Rowles stated the Board must provide a thorough response to the Mayor, including a valid reason why the Board is not divesting, or the strategy in which the Plan will divest.

Ms. Bhatia responded the objective of the report was for informational purposes and Staff will proceed further at Board direction. She also mentioned $25.6 million of the $43.3 million in holdings with Sudan exposure, are in commingled funds and in order to divest the investment managers would have to be changed. Ms. Bhatia stated, at Board direction, Staff would request the investment managers further identify the nature of their holdings.

President Romero inquired which funds are in commingled accounts. Ms. Kim responded Fidelity and Boston Company are commingled accounts.

Mr. Moore requested Ms. Kim turn to page 6c.1 and identify all of the companies in commingled accounts. Mr. Rue responded the information Mr. Moore was requesting is already identified on page 6b.1. He explained with separate accounts it is possible to devise customized instructions to managers requiring them to delete specific securities, however commingled accounts are like holding a mutual fund and it would be necessary to sell the whole account.

Mr. Moore requested to know of the three commingled accounts, which hold the interests in Sudan. Mr. Rue suggested staff develop a matrix to be presented to the Board at a later time identifying which companies have holdings in what companies with Sudan exposure. Mr. Moore agreed it would be better for staff to present the Board with the matrix at a later time. He also specified what the Board needs is a breakdown of separate funds versus commingled funds by security. He mentioned if the Plan had to divest all of the commingled funds this would be more than $100 million. He also requested to know the dollar value of the commingled funds needing to be sold off, the cost of transitioning those funds and the additional incremental management fees associated with being in a separate account as opposed to a commingled account. He stated this information would provide the Board with the immediate cost consequences of divesting for the commingled funds, ignoring the opportunity costs. Mr. Moore stated a more fundamental issue was the fiduciary responsibility of the Board. He stated each of the Board members could come up with issues they would like to have some impact on. Mr. Moore explained his philosophy has been to strictly adhere to the fiduciary responsibility they are all legally bound to. He stated in relation to choosing which firms to invest or not invest in, if the decision is being made on a fiduciary basis, then the decision should be made by the soundness of the investment. For example, Mr. Moore mentioned, although he has strong feelings about smoking he is pretty certain he would not support the Board divesting from the tobacco industry. Mr. Moore mentioned the genocide in Sudan issue is a really compelling issue. He inquired if the decision to divest from Sudan can be based on moral or ethical reasons as opposed to business decisions. Mr. Moore stated Mayor Villaraigosa's memo was very clear about what he hoped the Board would do however it also acknowledges the Board's fiduciary responsibility. Mr. Moore mentioned the Board must examine the issue with care. He noted if Staff can pull some information together expeditiously, then the Board can make decisions about how to proceed.

Ms. Bhatia responded Staff would compile the information regarding commingled and separate accounts, based on Board direction, and have it prepared for the next meeting. Attorney Wilkinson stated he could assist with this as well.

Mr. Canzano inquired what impact there would be if several pension plans communicated to the commingled fund investment managers their desire to divest from companies with Sudan exposure. Mr. Rue responded larger state funds such as the University of California, CalPERS, and CalSTRS funds have been approached to divest and have responded with a variety of different strategies. He stated these larger funds typically either manage a significant amount of assets internally or have a significant amount of separate accounts and are able to customize which companies they hold interest in. Mr. Rue noted while the Los Angeles City funds are sizeable most of this battle has been conducted at the larger state fund level.

President Romero inquired if there would be any fiduciary concerns if the separate account investment managers were directed to look for future opportunities to replace companies linked to Sudan without affecting the Plan. Ms. Kim stated although a significant amount of resources have been put into developing the list of stocks, the question still remains if this is the correct list. She added, with the exception of China Petroleum and Chemical Corp., it is unclear if the companies with exposure are harming or helping the development of the country.

Commissioner Hogan-Rowles referenced the list on page 15.5, which identifies a sample of institutional investors along with their respective Sudan engagement or divestment practices. She requested Staff provide a summary to the Board of the stock list other institutional investors have and speak to other investment fund managers to see what position other boards have on the Sudan issue. Commissioner Hogan-Rowles stated it is important to look at the issue very carefully. She noted as part of fiduciary responsibility it is important to do your own research. Commissioner Hogan-Rowles stated she will do her own research and provide material to the Board, but is still looking for Staff to present as much information as possible. She stated the Department, as the largest municipal utility in the country, has a responsibility to be a leader. Commissioner Hogan-Rowles stated while she is unsure if divesting is the area for the Department to step out as a leader on, at a minimum a thorough due-diligence needs to be conducted, before the next Board meeting, so a decision can be made.

Mr. Moore commented as noted on the list on page 15.5, CalPERS has attempted to engage the companies in their portfolio. He stated, to his knowledge, the companies have all responded even if CalPERS chooses to divest, the companies would not change their business practices. Mr. Moore requested Mr. Rue to address this issue. Mr. Rue stated he could not presently address the issue, however he will look into the matter and respond to Mr. Moore at a later time.

14. PCA’s Quarterly Performance Review as of March 31, 2006 14.1

President Romero requested Mr. Rue to present a summary of PCA’s quarterly performance review. Mr. Rue stated as of March 31, 2006 the WPERP total portfolio was valued at $6.7 billion. He noted this was a $199.5 million increase in value since the last quarter and a $493.7 million increase since the previous one-year period. Mr. Rue explained for the quarter the Plan’s portfolio returned 3.9% outperforming its policy benchmark return of 3.8%. He stated the Plan underperformed in both Domestic and International equities, and outperformed in Domestic fixed. Mr. Rue stated the median fund produced approximately 14.9% but the Plans performance was 11.9%. Mr. Rue explained the reason for the Plan’s underperformance primarily is because the other funds have 10% of their assets in real estate and alternative investments. He noted those asset classes were up 25% during the past year. He stated the Plan is moving toward investing in those categories, but this will take some time. Mr. Rue provided the Board with a summary of the portfolio’s performance by type of fund noting the following: Large Cap fund had a net positive performance; Small Cap fund had a net negative performance, primarily due to the Bank of New York's underperformance and Earnest Partners modestly underperforming during the past year; Developed Markets fund performance lagged due to underperformance by Invesco, and Boston Company; Emerging Markets fund had a net positive performance; Fixed Income all of the managers were outperforming.

16. Retirement Plan Manager's Comments

a) DWP Plan Newsletter for Retirees (May 1, 2006, Edition) 16a.1

b) General Items

Ms. Bhatia stated two Assistant Plan managers have been selected and will start June 12, 2006. She stated both of the candidates come highly recommended from LACERS'. President Romero requested Ms. Bhatia introduce the new Assistant Plan managers to the Board at the next meeting. Ms. Bhatia responded in the affirmative.

Commissioner Hogan-Rowles inquired if Ms. Bhatia has filled the other recommended investment positions. Ms. Bhatia responded in the negative, explaining Staff has been working with Human Resources, the job audit has been completed and the positions have been approved. She noted the positions are still not established and there is pending paperwork to be completed by Labor Relations. Ms. Bhatia stated although she has been informed the process is moving forward she is unsure if they will meet the June 30, 2006 deadline previously given.

Commissioner Hogan-Rowles inquired whom could she call in Labor Relations to help the process. Ms. Bhatia responded she has been in communication with Hal Lindsey and has informed Robert Rozanski as well. Commissioner Hogan-Rowles stated she would discuss the matter with Mr. Lindsey and Mr. Rozanski.

Ms. Bhatia noted at the May 3, 2006 Board meeting, the Board moved to invest $30 million with the Lexington Capital Partners (Lexington) private equity fund. She stated the City Attorney has reviewed the paperwork and all the necessary signatures have been obtained, for the Plan's enrollment in the Lexington fund. Ms. Bhatia stated a funding Plan will need to be implemented to determine when the funds will be transferred.

Ms. Bhatia stated over the next few meetings several items will be brought before the Board including: Small Cap growth RFP responses; the Proxy provider finalists; Real Estate investment services; the contract for the computer project; several investment manager contracts that are coming up for renewal or RFP's.

Ms. Bhatia reminded the Board the new auditors Macias, Gini & Co. are starting on July 1, 2006.

Ms. Bhatia stated the coordination has already been worked out for the health plans funds to be invested with the Plan's assets. She stated if the Board approves the change staff will be prepared to coordinate arrangements and work with a policy document. Ms. Bhatia commented based on conversations with Mr. Vazquez she does not believe resources will initially be a major issue.

17. Future agenda items

President Romero requested in the future Ms. Bhatia include status updates on the computer project during the General Manager's comments portion of the Board meetings.

The Board meeting was adjourned at 2:14 p.m.

JAVIER ROMERO
President

SANGEETA BHATIA
Secretary

VIKKI BURKS
Recording Secretary